

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Honor	County Benzie
Fiscal Year End 12/31/06	Opinion Date 3/6/07	Date Audit Report Submitted to State 6/5/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SE
Z

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	GAGAS & OMB A-133 reports and schedules	
Certified Public Accountant (Firm Name) J L Stephan Co, PC		Telephone Number (231) 941-7600	
Street Address 862 E. Eighth St.		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Jerry L. Stephan	License Number 1101010359	

Village of Honor

Benzie County, Michigan

*Financial Statements
and Supplemental Information*

December 31, 2006

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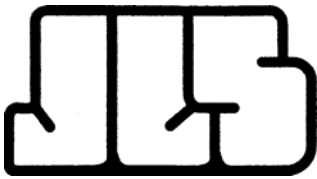
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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Honor
Honor, MI 49640

We have audited the accompanying financial statements of the governmental activities and business-type activities of the Village of Honor as of and for the year ended December 31, 2006 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Village as of December 31, 2006 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United State of America.

The accompanying statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of the basic financial statements.

The budgetary comparison information on pages 18-20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Honor's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Village of Honor. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 6, 2007

Village of Honor
Government Wide
Statement of Net Assets
December 31, 2006

Exhibit A

	<i>Governmental Activities</i>	<i>Business Type Activities</i>	<i>Total</i>
Assets			
Cash and Cash Equivalents	\$ 189,823	\$ 151,598	\$ 341,421
Receivables	21,695	36,499	58,194
Inventory	4,950	-	4,950
Restricted Cash		109,958	109,958
Construction in Process	-	1,049,073	1,049,073
Land	2,889	-	2,889
Capital Assets - net	48,198	264,039	312,237
<i>Total Assets</i>	<u>267,555</u>	<u>1,611,167</u>	<u>1,878,722</u>
Liabilities			
Accounts Payable	-	128,915	128,915
Accrued and Other Liabilities	-	-	-
Deferred Revenue	12,882	-	12,882
Non-Current Liabilities			-
Due within one year	-	17,000	17,000
Due within more than on year	-	902,000	902,000
<i>Total Liabilities</i>	<u>12,882</u>	<u>1,047,915</u>	<u>1,060,797</u>
Net Assets			
Invested in Capital Assets - net of related debt	51,087	394,112	445,199
Restricted			
Capital Projects	-	16,749	16,749
Debt Payment	-	93,209	93,209
Unrestricted	203,586	59,182	262,768
<i>Total Net Assets</i>	<u>\$ 254,673</u>	<u>\$ 563,252</u>	<u>\$ 817,925</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Government Wide
Statement of Activities
For the Year Ended December 31, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<i>Primary Government</i>							
General Government	\$ 34,777	\$ 6,990	\$ -	\$ -	\$ (27,787)		\$ (27,787)
Public Safety	300	-	-	-	(300)		(300)
Public Works	82,772	5,420	34,237	-	(43,115)		(43,115)
Community and Economic Development	1,951	290	-	-	(1,661)		(1,661)
Recreation and Culture	5,924	-	-	-	(5,924)		(5,924)
Other Functions	10,204	-	-	-	(10,204)		(10,204)
Interest on Long-Term Debt	-	-	-	-	-		-
<i>Total Governmental Activities</i>	<u>135,928</u>	<u>12,700</u>	<u>34,237</u>	<u>-</u>	<u>(88,991)</u>		<u>(88,991)</u>
<i>Business-Type Activities</i>							
Sewer	<u>53,552</u>	<u>165,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,498</u>	<u>111,498</u>
<i>Total Primary Government</i>	<u>\$ 189,480</u>	<u>\$ 177,750</u>	<u>\$ 34,237</u>	<u>\$ -</u>	<u>(88,991)</u>	<u>111,498</u>	<u>22,507</u>
<i>General Revenues</i>							
Property Taxes					64,735	-	64,735
State Shared Revenues					24,117	-	24,117
Interest					1,966	1,971	3,937
Refunds					1,240	-	1,240
Miscellaneous					136	-	136
Disposal/Sale of Assets					-	-	-
Net Transfers In/(Out)					-	-	-
<i>Total General Revenues and Transfers</i>					<u>92,194</u>	<u>1,971</u>	<u>94,165</u>
<i>Change in Net Assets</i>					<u>3,203</u>	<u>113,469</u>	<u>116,672</u>
Net Assets - Beginning					<u>251,470</u>	<u>449,783</u>	<u>701,253</u>
Net Assets - Ending					<u>\$ 254,673</u>	<u>\$ 563,252</u>	<u>\$ 817,925</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Governmental Funds
Balance Sheet
December 31, 2006

Exhibit C

	<i>General</i>	<i>Major Streets</i>	<i>Major Streets</i>	<i>Total</i>
Assets				
Cash - Unrestricted	\$ 103,841	\$ 35,683	\$ 50,299	\$ 189,823
Taxes Receivable	12,882	-	-	12,882
Due from State	4,134	3,594	1,085	8,813
Inventory	4,950	-	-	4,950
<i>Total Assets</i>	<u>125,807</u>	<u>39,277</u>	<u>51,384</u>	<u>216,468</u>
Liabilities				
Due to Other Funds	-	-	-	-
Deferred Revenue	12,882	-	-	12,882
<i>Total Liabilities</i>	<u>12,882</u>	<u>-</u>	<u>-</u>	<u>12,882</u>
Fund Balances				
Fund Balances - Unreserved	112,925	39,277	51,384	203,586
<i>Total Fund Balances</i>	<u>\$ 112,925</u>	<u>\$ 39,277</u>	<u>\$ 51,384</u>	<u>203,586</u>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>				
Capital Assets of \$223,939 net of accumulated depreciation of (\$172,852) are not financial resources and are not reported in the funds				<u>51,087</u>
<i>Net Assets of Governmental Activities</i>				<u>\$ 254,673</u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Governmental Fund
Statement of Revenue, Expenditures
and Changes on Fund Balance
For the Year Ended December 31, 2006

Exhibit D

	<i>General Fund</i>	<i>Major Streets Fund</i>	<i>Local Streets Fund</i>	<i>Total Governmental Funds</i>
Revenues				
Property Taxes	\$ 64,735	\$ -	\$ -	\$ 64,735
Licenses & Permits	290	-	-	290
State Grants	24,117	25,295	8,942	58,354
Charges for Services	5,548	-	-	5,548
Interest Earned	1,032	418	516	1,966
Equipment Rentals	18,354	-	-	18,354
Refunds	1,240	-	-	1,240
Miscellaneous Income	25	55	56	136
<i>Total Revenues</i>	<u>115,341</u>	<u>25,768</u>	<u>9,514</u>	<u>150,623</u>
Expenditures				
General Government	37,730	-	-	37,730
Public Safety	300	-	-	300
Public Works	60,095	19,743	9,909	89,747
Community and Economic Dev.	1,951	-	-	1,951
Recreation and Culture	3,086	-	-	3,086
Other Functions	10,204	-	-	10,204
<i>Total Expenditures</i>	<u>113,366</u>	<u>19,743</u>	<u>9,909</u>	<u>143,018</u>
<i>Excess Revenues Over (Under)</i>				
<i>Expenditures</i>	1,975	6,025	(395)	7,605
<i>Other Financing Sources (Uses)</i>				
Operating Transfers In	-	-	6,175	6,175
Operating Transfers (Out)	-	(6,175)	-	(6,175)
	<u>-</u>	<u>(6,175)</u>	<u>6,175</u>	<u>-</u>
<i>Excess of Revenues and Other</i>				
<i>Sources Over (Under)</i>				
<i>Expenditures and Other Uses</i>	1,975	(150)	5,780	7,605
Fund Balance - Beginning	<u>110,950</u>	<u>39,427</u>	<u>45,604</u>	<u>195,981</u>
Fund Balance - Ending	<u><u>\$ 112,925</u></u>	<u><u>\$ 39,277</u></u>	<u><u>\$ 51,384</u></u>	<u><u>\$ 203,586</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor

Exhibit E

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2006*

Change in Fund Balance - Total Governmental Funds (Exhibit D)	\$ 7,605
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Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$8,409) is exceeded by depreciation (\$12,811) in the current period.

(4,402)

Change in net assets of governmental activities (Exhibit B)

<u>\$ 3,203</u>

Village of Honor
Proprietary Fund
Statement of Net Assets
December 31, 2006

Exhibit F

	<u>Sewer System</u>
Assets	
<i>Current Assets</i>	
Cash-Unrestricted	\$ 151,598
Due from County	9,652
Accounts Receivable	<u>26,847</u>
<i>Total Current Assets</i>	188,097
<i>Non-current Assets</i>	
Cash-Restricted	109,958
Construction in Process	1,049,073
Capital Assets - net	<u>264,039</u>
<i>Total Non-current Assets</i>	<u>1,423,070</u>
<i>Total Assets</i>	<u>1,611,167</u>
Liabilities	
Accounts Payable	128,915
Bonds Payable	919,000
Due to Other Funds	<u>-</u>
<i>Total Liabilities</i>	<u>1,047,915</u>
Net Assets	
Invested in Capital Assets - net of debt	394,112
Restricted:	
Capital Projects	16,749
Debt Payment	93,209
Unrestricted	<u>59,182</u>
<i>Total Net Assets</i>	<u><u>\$ 563,252</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Proprietary Fund
Statement of Revenue, Expenses
and Changes in Net Assets
For the Year Ended December 31, 2006

Exhibit G

	<u>Sewer System</u>
Revenues	
Sewer Charges	\$ 163,210
Hook-Up Fees	1,625
Equipment Rental	215
Fees & Permits	-
	<hr/>
<i>Total Revenues</i>	165,050
 Operating Expenses	
Salaries and Wages	13,961
Operating Supplies	2,372
Contract Services	5,296
Insurance/Audit	3,585
Printing & Publishing	699
Utilities	3,259
Repairs and Maintenance	227
Rentals	6,862
Miscellaneous	321
Depreciation	16,970
	<hr/>
<i>Total Operating Expenses</i>	53,552
 <i>Operating Income (Loss)</i>	111,498
 Non-Operating Revenues (Expenses)	
Interest Earned	1,971
Misc Refunds & Reimbursements	-
Bond Interest	-
	<hr/>
<i>Total Non-Operating Revenues (Expenses)</i>	1,971
 <i>Income (Loss) Before Transfers</i>	113,469
Operating Transfer In	-
Operating Transfer (Out)	-
	<hr/>
<i>Net Operating Transfers</i>	-
 <i>Net Income (Loss)</i>	113,469
Net Assets - Beginning of Year	449,783
	<hr/>
Net Assets - End of Year	<u><u>\$ 563,252</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Proprietary Fund
Statement of Cash Flows
For the Year Ended December 31, 2006

Exhibit H

	<u>Sewer System</u>
<i>Cash Flows from Operating Activities</i>	
Operating income (loss)	\$ 111,498
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>	
Depreciation	16,970
Capital Improvement Charges	-
Insurance Refund	-
Operating transfer in	-
<i>(Increase) decrease in current assets</i>	
Accounts Receivable	(18,594)
<i>Increase (decrease) in current liabilities</i>	
Accounts payable	128,915
Due to others	-
<i>Net Cash Flows From Operating Activities</i>	<u>238,789</u>
<i>Cash Flows from Capital and Related Financing Activities</i>	
Debt Principal Payment	-
Debt Proceeds	919,000
Construction In Progress	<u>(1,025,458)</u>
<i>Net cash flows from capital & related financing activities</i>	(106,458)
<i>Cash Flows from Investing Activities</i>	
Interest Income	<u>1,971</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	134,302
<i>Cash and cash equivalents at beginning of year</i>	<u>127,254</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 261,556</u></u>

The Notes to Financial Statements are an integral part of this statement

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Local Governmental Unit conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

A. Reporting Entity

The Village of Honor was incorporated in 1914 and is located in Benzie County, Michigan. The Village operates under a charter adopted January 30, 1915, and is governed by an elected President-Council form of government. The Village population as of the 2000 census was 299 and the current taxable valuation is \$9,019,561.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, no required organizations have been omitted from these financial statements.

B. Government –Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village collects property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. Delinquent real property taxes receivable are offset by deferred revenue on the Village's balance sheet, as these accounts are not normally received within sixty days of year-end, and are therefore not available to finance current operations. All other revenue items are considered to be available only when cash is received by the government.

The local unit reports the following major governmental funds:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the Village are the Major and Local Street Funds.

The local unit reports the following major proprietary fund:

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The Sanitary Sewage Disposal fund is operated with the intention that the cost of providing sewer services to the public will be financed or recovered primarily through charges to users.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are changes between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including tape fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable - Accounts Receivable are recorded in the Sewer Fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer and any amounts not collected by the village are turned over to the County.

Inventories - General Fund inventories consist of garbage bags to be resold and are recorded at cost.

Restricted Assets – The revenue bonds of the enterprise fund requires amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and bond reserve. Additionally, the unit charged capital improvement fees with sewer charges. The bonds have been paid off and the remaining reserve for capital improvements, as well as revenue received from capital improvement charges have been classified as restricted assets.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets – capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation has been provided on these fixed assets using the straight line method over their estimated useful lives.

- | | |
|----------------------------------|----------|
| • Furniture and Office Equipment | 5 years |
| • Maintenance Equipment | 7 years |
| • Park Equipment and Structures | 10 years |
| • Roads & Paving | 20 years |
| • Buildings and Improvements | 30 years |

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The General Fund and Special Revenue Fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and shown as amended by the Village. The approved budgets of the Village for these budgetary funds were adopted at the activity level.

Encumbrance accounting is not used and appropriations normally lapse at year-end.

B. Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2006, the Village had no expenditures in excess of amounts appropriated.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Michigan Compiled Laws, Section 129.91

This law authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit has designated one bank for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as outlined above.

The Local Governmental Unit's deposits and investment policy are in accordance with the statutory authority.

B. Types of Deposits and Investments

At year-end, the Local Unit's cash deposits and cash equivalents were reported in the basic financial statements in the following categories:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>
Cash and Equivalents	\$ 189,824	\$ 151,598
Investments	-	-
Restricted Assets	<u>-</u>	<u>109,958</u>
Total Deposits	<u>\$ 189,824</u>	<u>\$ 261,556</u>

The breakdown between deposits and investments is as follows:

	Primary <u>Government</u>
Time & Demand Deposits	\$ 451,380
Investments	-
Cash on Hand	<u>-</u>
Total	<u>\$ 451,380</u>

The bank balance of the primary government's deposits is \$451,380 of which \$101,749 is covered by federal depository insurance.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 4 – SUMMARY OF CAPITAL ASSETS

Capital asset activity for the primary government for the current year is summarized as follows:

Governmental Activities

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 2,889	\$ -	\$ -	\$ 2,889
<i>Capital Assets Being Depreciated</i>				
Buildings	61,129	-	-	61,129
Equipment	139,768	-	-	139,768
Roads & Paving	<u>11,744</u>	<u>8,409</u>	<u>-</u>	<u>20,153</u>
	<u>212,641</u>	<u>8,409</u>	<u>-</u>	<u>221,050</u>
<i>Less: Accumulated Depreciation</i>				
Buildings	(56,688)	(157)	-	(56,845)
Equipment	(102,472)	(11,857)	-	(114,329)
Roads & Paving	<u>(881)</u>	<u>(797)</u>	<u>-</u>	<u>(1,678)</u>
	<u>(160,041)</u>	<u>(12,811)</u>	<u>-</u>	<u>(172,852)</u>
<i>Net Capital Assets being Depreciated</i>	<u>52,600</u>	<u>(4,402)</u>	<u>-</u>	<u>48,198</u>
<i>Total Capital Assets of Governmental Activities – Net of Depreciation</i>	<u>\$ 55,489</u>	<u>\$ (4,402)</u>	<u>\$ -</u>	<u>\$ 51,087</u>

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 4 – SUMMARY OF CAPITAL ASSETS - continued

Business Type Activities

	Beginning Balance	Additions	Deletions	Ending Balance
<i>Capital Assets Not Being Depreciated</i>				
Construction in Process	\$ 23,615	\$ 1,025,458	\$ -	\$ 1,049,073
<i>Capital Assets Being Depreciated</i>				
Sewage System	626,478	-	-	626,478
Equipment	<u>24,614</u>	<u>-</u>	<u>-</u>	<u>24,614</u>
	<u>651,092</u>	<u>-</u>	<u>-</u>	<u>651,092</u>
<i>Less: Accumulated Depreciation</i>				
Sewage System	(345,469)	(16,970)	-	(362,439)
Equipment	<u>(24,614)</u>	<u>-</u>	<u>-</u>	<u>(24,614)</u>
	<u>(370,083)</u>	<u>(16,970)</u>	<u>-</u>	<u>(387,053)</u>
<i>Net Capital Assets being Depreciated</i>	<u>281,009</u>	<u>(16,970)</u>	<u>-</u>	<u>264,039</u>
<i>Total Capital Assets of Business Type Activities – Net of Depreciation</i>	<u>\$ 304,624</u>	<u>\$ 1,008,488</u>	<u>\$ -</u>	<u>\$ 1,313,112</u>

Depreciation expense in the current year was charged to programs of the primary government as follows:

Governmental Activities

General Government	\$ 735
Public Works	9,238
Parks & Recreation	<u>2,838</u>
Total Governmental Activities	<u>\$ 12,811</u>

Business Type Activities

Sewer Fund	<u>\$ 16,970</u>
------------	------------------

NOTE 5 – LONG-TERM DEBT

The Village issued Sewer System Revenue Bonds, Series 2006 to pay for sewer system upgrades and repairs. The overall approved issue is \$1,315,000. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Interest on the bonds is payable at an annual rate of 4.25%. Interest is payable April 1 and October 1 of each year, with principal paid on October 1 each year until 2046.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 5 – LONG-TERM DEBT - continued

Bond obligation activity can be summarized as follows:

	<i>Beginning Balance</i>	<i>Additions (Reductions)</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
2006 Revenue Bonds	\$ -	\$ 919,000	\$ 919,000	\$ 17,000

Annual debt service requirements to maturity for the above obligations are as follows:

<i>Year(s)-Ended December 31</i>	<i>Principal</i>	<i>Interest</i>
2007	\$ 17,000	\$ 43,716
2008	18,000	55,165
2009	19,000	54,400
2010	19,000	53,592
2011	20,000	52,785
2012-16	107,000	250,878
2017-21	123,000	226,780
2022-26	145,000	198,900
2027-31	166,000	166,218
2032-36	195,000	128,562
2037-41	225,000	84,745
2042-46	<u>261,000</u>	<u>33,915</u>
Total	<u>\$1,315,000</u>	<u>\$1,349,656</u>

NOTE 6 – RESTRICTED RETAINED EARNINGS

Restricted Retained Earnings represents monies set aside in the Sewer Fund for specific purposes summarized as follows:

Sewer Construction and Improvements	\$ 16,749
Bond Indenture, Reserves & Replacements	<u>93,209</u>
Total Restricted Retained Earnings	<u>\$ 109,958</u>

NOTE 7 – RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Also, the Village carries worker's compensation insurance with The Accident Fund of Michigan. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Village of Honor
Notes to Financial Statements
December 31, 2006

NOTE 8 – COMMITMENTS

The Village is in the process of constructing a sewer system upgrade. The Village expects to issue bonds to fund the construction of the new project. To date, the Village has incurred approximately \$1,049,073 in costs related to the construction, engineering and planning of the new project.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Honor
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2005

Schedule 1

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 110,950	\$ 110,950	\$ 110,950	\$ -
Resources (Inflows)				
Property Taxes	65,000	65,000	64,735	(265)
Licenses & Permits	400	400	290	(110)
State Shared Revenue	21,000	21,000	24,117	3,117
Charges for Services	500	500	128	(372)
Garbage Bag Sales	4,500	4,500	5,420	920
Interest Earned	350	350	1,032	682
Equipment Rentals	19,000	19,000	18,354	(646)
Refunds & Reimbursements		-	1,240	1,240
Miscellaneous Income	20	20	25	5
Transfers from Other Funds	1,300	1,300	-	(1,300)
<i>Total Available for Appropriation</i>	223,020	223,020	226,291	3,271
Charges to Appropriations (Outflows)				
General Government				
Village Council	18,100	17,100	15,368	1,732
Elections	700	700	-	700
Clerk	9,475	9,475	9,334	141
Treasurer	4,050	4,050	3,918	132
Village Hall & Grounds	16,800	14,300	9,110	5,190
Public Safety				
Fire Department	600	600	300	300
Public Works				
General Public Works	59,875	59,875	39,646	20,229
Highways, Streets & Bridges	5,500	5,500	4,438	1,062
Street Lights	8,000	8,200	8,087	113
Sanitation	8,500	8,500	7,924	576
Community & Economic Development				
Zoning	600	2,900	1,951	949
Parks & Recreation	2,250	3,250	3,086	164
Other Expenditures				-
Equipment Rent	100	100	54	46
Legal	4,100	14,100	10,150	3,950
Contingencies	-	-	-	-
Miscellaneous	-	-	-	-
Transfers to Other Funds	20,000	-	-	-
<i>Total Charges to Appropriations</i>	158,650	148,650	113,366	35,284
Budgetary Fund Balance	\$ 64,370	\$ 74,370	\$ 112,925	\$ 38,555

Notes to Financial Statements are an integral part of this statement

Village of Honor
Budgetary Comparison Schedule
Major Streets Fund
For the Year Ended December 31, 2006

Schedule 2

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 39,427	\$ 39,427	\$ 39,427	\$ -
<i>Resources (Inflows)</i>				
State Gas & Weight	20,000	20,000	24,579	4,579
State Metro Act	750	750	716	(34)
Interest Earned	150	150	418	268
Miscellaneous Income	-	-	55	55
Transfers from Other Funds	10,000	-	-	-
<i>Total Available for Appropriation</i>	70,327	60,327	65,195	4,868
<i>Charges to Appropriations (Outflows)</i>				
Construction	10,000	9,800	6,096	3,704
Non-Motorized	200	200	200	-
Metro Act	1,000	1,200	1,170	30
Routine Maintenance				
Salaries and Wages			1,961	
Road Maintenance Supplies			398	
Equipment Rental			3,646	
Contract Services			250	
Miscellaneous			-	
<i>Total Routine Maintenance</i>	13,000	13,000	6,255	6,745
Winter Maintenance				
Salaries and Wages			1,354	
Road Maintenance Supplies			213	
Equipment Rental			2,770	
Contract Services			-	
Miscellaneous			-	
<i>Total Winter Maintenance</i>	7,900	7,900	4,337	3,563
Traffic	-	-	-	-
Administration	2,000	2,000	1,685	315
Transfers to Other Funds	7,000	7,000	6,175	825
<i>Total Charges to Appropriations</i>	41,100	41,100	25,918	15,182
Budgetary Fund Balance	<u>\$ 29,227</u>	<u>\$ 19,227</u>	<u>\$ 39,277</u>	<u>\$ 20,050</u>

The Notes to Financial Statements are an integral part of this statement

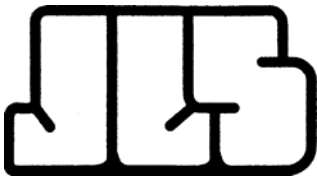
Village of Honor
Budgetary Comparison Schedule
Local Streets Fund
For the Year Ended December 31, 2006

Schedule 3

	<i>Original Budget</i>	<i>Amended Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Beginning Fund Balance	\$ 45,604	\$ 45,604	\$ 45,604	\$ -
Resources (Inflows)				
State Gas & Weight	7,000	7,000	8,226	1,226
State Metro Act	750	750	716	(34)
Interest Earned	150	150	516	366
Miscellaneous Income	-	-	56	56
Transfers from Other Funds	16,000	6,000	6,175	175
<i>Total Available for Appropriation</i>	69,504	59,504	61,293	1,789
Charges to Appropriations (Outflows)				
Construction	45,000	45,000	-	45,000
Non-Motorized	200	200	-	200
Metro Act	600	600	-	600
Routine Maintenance				
Salaries and Wages			1,181	
Road Maintenance Supplies			187	
Equipment Rental			2,444	
Contract Services			250	
Miscellaneous			-	
<i>Total Routine Maintenance</i>	8,200	8,200	4,062	4,138
Winter Maintenance				
Salaries and Wages			1,324	
Road Maintenance Supplies			214	
Equipment Rental			2,752	
Contract Services			-	
Miscellaneous			-	
<i>Total Winter Maintenance</i>	7,500	7,500	4,290	3,210
Traffic	-	-	-	-
Administration	3,000	2,500	1,557	943
Transfers to Other Funds	-	-	-	-
<i>Total Charges to Appropriations</i>	64,500	64,000	9,909	54,091
Budgetary Fund Balance	\$ 5,004	\$ (4,496)	\$ 51,384	\$ 55,880

The Notes to Financial Statements are an integral part of this statement

FEDERAL FUNDS SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Honor
Honor, MI 49640

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Village of Honor, Benzie County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Village of Honor's basic financial statements and have issued our report thereon dated March 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Honor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Honor's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village of Honor's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the Village of Honor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the Village of Honor in a separate letter as part of the audited financial statements.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Stephan Co. P.C.

March 6, 2007



Village of Honor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006

<i>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</i>	<i>Federal CDFA Number</i>	<i>Pass-Through Entity Identifying #</i>	<i>Federal Expenditures</i>
US Department of Agriculture - Rural Development			
<i>Water and Waste Disposal Systems for Rural Communities</i>	10.760	N/A	
Prior Years Pre-Construction Reimbursements			\$ 100,380
Current Year Expenditures			<u>946,841</u>
			<u><u>\$ 1,047,221</u></u>

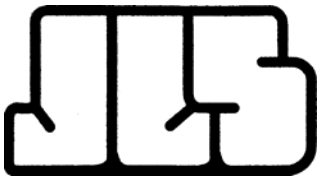
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal loan activity of the Village of Honor and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Prior Years Reimbursements

The Village of Honor incurred pre-construction costs in the amount of \$100,380. These amounts were approved by the USDA-RD and reimbursed with bond proceeds at closing.



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA

Marty K. Szasz-Busby, CPA
David Skibowski, Jr., CPA
Christopher H. Cornell, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Village Council
Village of Honor
Honor, MI 49640

We have audited the compliance of the Village of Honor, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Honor's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Honor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination in the Village of Honor's compliance with those requirements.

In our opinion, the Village of Honor complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Financial Reporting

The management of the Village of Honor is responsible for establishing and maintaining effective internal control over compliance with requirements of Laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud what would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J. L. Stephan Co. P.C.

March 6, 2007



Village of Honor
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2006

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s Report	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered material weaknesses?	None Reported
Non-compliance material to financial statements note?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CDFA#</u>	<u>Name of Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Audited qualified as low risk auditee?	No

Section II – Financial Statement Findings

No financial statement findings

Section III – Federal Award Findings and Questioned Costs

No federal award findings or question costs are reported.

OTHER INFORMATION (UNAUDITED)

Village of Honor

Comments and Recommendations

In planning and performing our audit of the financial statements of the Village of Honor, for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. As discussed below, we identified certain deficiencies in internal control. However, we believe sufficient compensating controls have been implemented to reduce the significant deficiencies in internal control to an acceptable level.

Segregation of Duties

We recognize the Village operates with limited personnel. The Clerk and Treasurer perform many duties optimally performed by multiple individuals. In many cases, the lack of personnel to segregate duties could be considered a significant deficiency in internal control. However, we believe the Village has implemented sufficient compensating controls, as outlined in the State's *Uniform Accounting Procedures Manual*, to reduce the risk of material misstatement of financial data to a low level.

In a continuing effort to improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for you to consider.

Budgeting

We noted the adoption of the 2006 budget as presented in the board meeting minutes although no amounts were given. In accordance with recommendations from the prior year, we noted a correction to the minutes indicating the budget was attached to the meeting minutes.

We noted the Clerk set up spreadsheet to maintain budget amendments and ending budgeted amounts. Although the spreadsheet/worksheets were somewhat cumbersome, she should be commended for her efforts.

Most budget amendments noted in meeting minutes were relatively clear and concise. However, amendments made near year-end were not as succinct. Additionally, balances stated with the amendment did not appear to include one or more of prior approved amendments. We recommend noting the activity to be amended, whether the budgeted amendment is an increase or decrease of the budgeted activity and the amount of the amendment. Furthermore, we recommend noting the amended budget is part of and is attached to the meeting minutes.

Village of Honor

Comments and Recommendations

As noted in the prior year's comments and recommendations, the State budget manual is a great reference for proper budgeting procedures and practices and has examples of a recommended budget as well as a general appropriations act.

Chart of Accounts

We understand the Village intends to implement a computerized accounting system in the future. During implementation, we recommend the Village establish its chart of accounts based on the *Michigan Department of Treasury – Uniform Chart of Accounts for Counties and Local Units of Government*. The new chart is based on the GASB 34 reporting format. It is paramount that the new accounting system is properly set up and the users have adequate training to properly utilize its capabilities.

Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the necessary copies of this audit report to the State Treasury Department. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these financial statements or our audit, please call upon us.